

The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC No. 03645-85/1
22 July 1985

MEMORANDUM FOR: See Distribution
FROM: George Kolt
National Intelligence Officer for Europe
SUBJECT: Warning and Forecast Report for Europe

1. Attached is my report to the DCI based on our meeting held 17 July 1985. If there are any significant amendments or additions you would wish to make, please let me know.

2. Next month's warning meeting will be held on 21 August 1985 at 1015 in room 7-E-62, CIA Headquarters. Please have your clearances passed and call [redacted] with names of the attendees by noon, 20 August 1985.

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3. I also encourage you to phone in suggestions for the agenda and proposals to make opening presentations. It would be helpful to have your comments for the next meeting by Monday, 12 August 1985.

George Kolt

Attachment
a/s

[redacted]

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NIC No. 03645-85
22 July 1985

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: George Kolt
National Intelligence Officer for Europe

SUBJECT: July Warning and Forecast Report

I. Main Discussion Items

A. Spain: The Internal Political Scene

1. Discussion

Although Prime Minister Gonzalez remains the dominant force in Spanish politics, his mastery of the machinery has slipped a bit and mounting economic problems could erode his popularity.

The lack of a credible political opposition gives the Premier considerable latitude. But managing an economy burdened with 22 percent unemployment and the austerity of a restructuring process requires maximum political finesse. Trade unions -- including the Socialist UGT -- are becoming more truculent and more demonstrations over issues like pension reform are likely.

The continuing ability of the weakened ETA and GRAPO to use terrorism to gain headlines and scandals over government spying on the political opposition could also detract from Gonzalez's image. Gonzales recently allowed a minor cabinet reshuffle to get out of hand and this has marred his reputation for political deftness.



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2. Warning Note: If Gonzalez continues to stumble, it could undercut his ability to handle the referendum on NATO membership. Madrid's tactics on the bases issue already appear influenced by pessimism over the NATO referendum -- polls indicate a hardening of majority opposition to membership. Should other problems become distracting, some Socialists may be tempted to play a tougher hand on the bases -- particularly ex-Foreign Minister Moran who is now free to voice his views.

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B. Ceausescu's Health and the Romanian Situation

1. Discussion

Persistent [redacted] in Bucharest indicate that Ceausecu may soon undergo surgery for cancer of the prostate. The timing is dicey as the country is experiencing more serious economic and financial problems in the wake of the harsh winter of 1985.

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If it is necessary, the operation might be hard on Ceausescu who has several other complicating health conditions. And, unless Ceausescu snaps back quickly, a succession scramble would probably pit his wife Elena and playboy son Nicu against the rest of the leadership. No dominant successor is evident in that group as Ceausescu has brooked no heir-apparent but his aides would probably unite to push aside Elena and Nicu.

The economy, weakened by four years of severe austerity, is still suffering the effects of the severe winter. Extra energy imports have depleted bank reserves and Romania soon may have to seek new loans, rescheduling and an IMF program -- despite Ceausescu's previous vows to the contrary. In addition, the harvest forecast is not good, industrial production is lagging and it will be tougher to meet his export goals and feed the already deprived population.

2. Warning Note: The Soviets might use the new economic difficulties to increase their influence over the Bucharest regime. If Ceausescu is seriously ill and a sucession struggle begins, the Romanian situation could confront the new Soviet leadership with its first East European crisis and an opportunity to roll-back Romania's often troublesome foreign policy. In addition, if Romania bungles its financial squeeze because of weak leadership, lender confidence in other East European regimes might sag.

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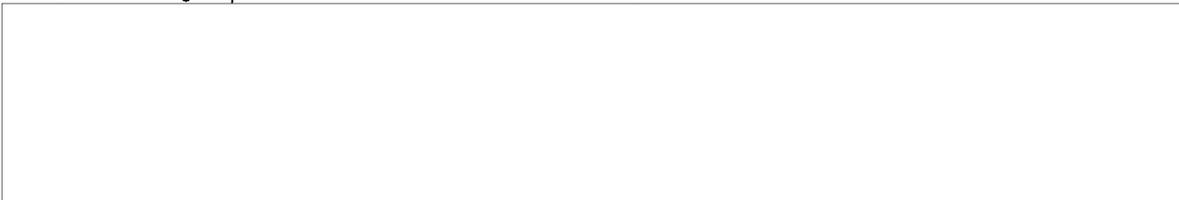
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II. Monitoring Items

A. The Situation on Cyprus

1. Discussion: Neither the Greek or Turkish Cypriots are likely to make concessions that would do more than allow the SYG proposed proximity talks to begin in September. But Denktash seems to have lost his PR advantage over Kyprianou. As for Greece and Turkey, they are hinting at greater flexibility but, for now at least, are sticking by the essentials of their mutually unacceptable demands.

2. Warning Note: The Greek Cypriots and Papandreou might press Washington hard to intervene with the Turks and make other US interests hostage to our responsiveness. One outcome of such a development could be that the Greek Cypriots insist that we transfer USG activities from Larnaca airfield to UK bases on Cyprus -- a move the UK would oppose because it would give those bases undesired publicity.



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B. The Next Steps in the European Community

1. Discussion: The paralysis at the Milan summit tended to polarize views between French-led countries which are pushing community integration and those, like the UK, which are more concerned about sovereign rights. With Luxembourg and then the Dutch in line for the Presidency, there will not be much dynamic leadership within the institution to narrow these differences.

2. Warning Note: There is a potential that the EC may avoid its difficult internal problems for a time by turning to other issues -- like the Geneva talks and SDI, the Middle East and Central America -- in ways that would harm US interests. In any event, the divisions among the Europeans present opportunities to Moscow and add another form of pressure on Helmut Kohl who needs good relations with France, the UK and the US.

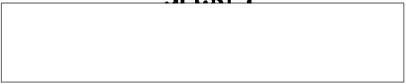
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C. Belgium: Political infighting within the governing coalition, has caused the elections to be moved up to October from December and reduced the prospects of recreating the same coalition after those elections. The US could thus be dealing with a less pro-US coalition in Belgium in the future. A marked change in the Belgium government should it come about could also have a negative impact on the 1 November Dutch GLCM basing decision.

D. Iceland: The US-Iceland dispute over the shipment of military goods to the US bases in Iceland is reaching a critical phase. The problem began in May 1984 when the US company Rainbow Navigation used the 1904 Cargo Preference Act to obtain a monopoly on those shipments, taking the business away from Icelandic companies and depriving Iceland of about one percent of its GNP. The current very pro-US government of Iceland has handled the issue in a low key way and at the same time reassured Icelanders that the dispute would eventually be settled satisfactorily. But the US offer early this month to pay Iceland compensation for lost revenues has evoked a storm of protests from Icelanders who reject a "dole". Unless a satisfactory solution is found soon, US-Icelandic relations could deteriorate rapidly to the detriment of very important US basing arrangements.

George Kolt

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